

The Plymouth Rock Company
INCORPORATED
695 Atlantic Avenue
Boston, Massachusetts 02111

Chairman's Letter

March 1, 1991

To Our Shareholders:

When it rains, it pours. For three years now, I have been writing about the wish to expand our business by entering a new state or another aspect of the insurance business. We have patiently cultivated several possibilities, expecting that one would eventually bear fruit. Instead, they all did. At the close of 1990, The Plymouth Rock Company finds itself responsible for five operating corporations and a subsidiary holding company. Plymouth Rock Assurance Corporation continues to underwrite Massachusetts personal lines while its infant sibling, Mt Washington Assurance Corporation, gets ready to write similar business in New Hampshire. The other holding company, SRB Corporation, which is now 95 percent owned by The Plymouth Rock Company, controls Pilgrim Insurance Company, a provider of insurance processing services; Boston Risk Management Corporation, an insurance broker; and Palisades Management Company, which hopes to provide various insurance services in New Jersey. We now include a chart in the financial footnotes to elucidate this complicated corporate structure.

Why did we do so much at once? Why are there so many different companies? How will we manage them all without losing the benefits of tight focus? These are legitimate questions, and they occupy much of my thinking time these days. Let me try to answer them directly. First, I would not have chosen in the abstract to bite off so much at once. There is an undeniable danger that our entrepreneurial resources will be overtaxed. On the other hand, each of the possible expansions has been in the works for several years. Each was waiting for one or more key enabling events

to occur. That so many of these events happened in 1990 was just coincidence, and it would have been a shame to let any of the opportunities go by after all the months of planning. So, we decided to proceed in each separate area on the timetable that made sense for that project rather than according to some overall grand plan.

There are a variety of reasons for having each business organized as an individual corporation. The limited liability that follows from well-observed corporate walls is a valuable protection for a group of diverse enterprises under common ownership. Even more important, though, are the philosophical implications of keeping the corporations separate. We want each business to be subjected to the full rigors of profitability testing, and we want to resist the temptation to subsidize any efforts that persistently fail to meet investment standards. We want management to think and act entrepreneurially, rather than bureaucratically, even if we someday become a large family of businesses. The structure we have chosen is designed to give profit-center executives as much freedom and as much responsibility as possible so that they may perform to the fullest of their abilities.

Keith Rodney and I have run Plymouth Rock in its first seven years with a tightly centralized format. We have interviewed every employee, tried to arbitrate every dispute, and kept abreast of every problem. Both of us liked that style of managing and we will miss it, but it is no longer a realistic option for us unless we purposely halt the company's growth. We have, therefore, sought a new format that emphasizes the addition of other talented people and tries to reserve for the center only the difficult job of setting standards and values. Two of our top people, Ed Ford and Bill Kelley, join Keith, Jim Bailey and me as officers of The Plymouth Rock Company with responsibility for seeing that these consistent standards and values, and what we sometimes call our corporate culture, are maintained in all of the Plymouth Rock companies. One of us will serve as chairman of each of the operating companies.

The presidents of the operating companies will be responsible for profitability, for employee effectiveness and morale, and for the accuracy of all budgets, data, and reports. As the chairmen will focus on the elements common to the Plymouth Rock companies, the presidents will concentrate on the diverse and autonomous aspects of their businesses. I will continue

as president of Plymouth Rock Assurance, and Keith will serve as Palisades' president until we have a full time New Jersey staff. Peter Jones will be Mt Washington's president, aided by Mike Steere as its resident vice president in New Hampshire. Fred Church, who recently joined us from a most distinguished career as chief operating officer of Frank B. Hall of Massachusetts, will be Boston Risk Management's president. Vin Nieroda, who has been running most of Pilgrim's operations for two years as its vice president, has now taken the full reins as president of that company. The most comforting aspect of our awesome expansion challenge is that we have people of this caliber to run the various companies. I worried aloud several years ago that Plymouth Rock lacked depth of executive talent and experience. That problem is plainly behind us.

The financial results for the group in 1990 were dominated, of course, by the fortunes of Plymouth Rock Assurance, which we expect will account for the bulk of the group's revenues for some years to come. Net income at that company was \$4.3 million, up about 13 percent over income in 1989. The result is acceptable, but 1990 was the first year since inception that Plymouth Rock Assurance has failed to reach its budget objective. We had aimed for a net income of \$4.7 million. The problem was not in the Massachusetts automobile insurance environment nor in our new ventures. The depopulation of the Massachusetts residual market, Commonwealth Automobile Reinsurers, is proceeding briskly, with C.A.R. now insuring about 45 percent of the vehicles in the state rather than the two thirds it covered a year ago. The most recent rate decision of the Commissioner provides automobile insurance rates reasonably related to the industry's costs, plainly an improvement from the inadequate rates of the mid 1980's. And the new ventures we are starting could not have caused the shortfall because none of them was financed at the expense of our Massachusetts insurer. Their capital came from the holding companies.

Plymouth Rock Assurance did not earn as much as we had budgeted because it had some unexpected write-offs in 1990. In the process of changing our data processing vendor and the accompanying redesign of our procedures and controls, we discovered a number of accounting errors. Some of the errors were offsetting and thus had no impact on net income. That does not make them any less disturbing. I have no excuse to offer. We simply had not done as good a job in accounting as in underwriting, claims or customer service.

We hope and trust that Ray Moore, our new accounting chief, can see to it in the future that the precision of our accounting is as much a source of pride as any other part of our business. Keith, who is a CPA by training, will work closely with him to achieve that objective. I take some comfort from our auditor's perspective that we are presently as accurate as most other insurers of our size. To succeed on our ambitious course, though, we will have to be still more precise and able thus to focus our creative energies on the implications of our numbers rather than concerns about their accuracy. If there is a valuable lesson to be learned from 1990, that is it.

The good news from 1990 is that Plymouth Rock Assurance's core business looks healthy. Written volume in Massachusetts was \$84 million, up about 21 percent from 1989. And, even as we shifted business to our own account from the C.A.R. pool in keeping with the industry's depopulation effort, our pure loss ratio remained about what it had been in past years. We are confident we have as good a book of business, measured either before or after the impact of C.A.R., as any of the top writers of Massachusetts personal lines. That is a continuing credit to our agents and our underwriting methods.

Our gross expense ratio, measured to include all loss adjustment costs and investment expenses along with traditionally defined underwriting expenses, was just over 40 percent, about the same as last year. Like last year the total contains a point of extraordinary assessment for industry insolvencies, but most of the costs are real and continuing. While I keep hoping to push our gross expense ratio down by at least four points, it has so far resisted my efforts. Ed Ford, who has taken his actuary's hand to the problem, tells me that we are already fairly typical of agency personal lines carriers and that further progress must be eked out penny by penny. We will keep trying. Agency companies simply can not compete if their expense ratios remain too much above those of direct writers. Eliminating the duplication of effort between company and agent has to be the key.

In one area of expense control, I believe we are on the verge of a success. Last year I described our "Crashbusters" program, which allows policyholders some innovative options for getting their damaged vehicles repaired. We have bought and equipped a small fleet of vans which can get an appraiser and the necessary technology to a damaged car within hours of an accident report. The appraiser and the insured can then settle

the claim on the spot. We will guarantee both price and quality if the insured has the car repaired at a shop on our list of recommendations or, if the insured wants us to do all the work, we will take the car and return it fixed. More than a third of our collision claims are currently being settled under this new program. Our customers and agents tell us they love it. We think, moreover, that its speed and simplicity will save us money, although that will remain unproven until we get Crashbusters beyond its expensive start-up stage. In 1990, it probably cost us a bit more than the traditional appraisal approach. Loss adjustment expenses as a whole are up nearly a point over two years ago, a handicap in our effort to tame the overall cost ratio.

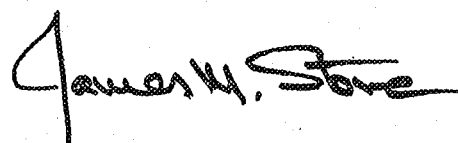
Supplementing our income from Plymouth Rock Assurance was a gain of \$235,000 at Pilgrim, the only other company in our group with a material impact on the 1990 bottom line. Pilgrim is in its third year of providing services to other insurers. Its gross revenues from automobile insurance processing now exceed \$4 million, and it is beginning to explore workers' compensation as a candidate for the next focus of its interest. Workers' compensation ranks right behind auto in property and casualty volume, and it competes about evenly with auto for the distinction of being the industry's most troubled line.

Investment income for the company group was \$5.7 million in 1990, up from \$4.1 million in 1989. We continue to have as conservative a portfolio as any company in our industry, and portfolio changes provide little grist for this annual letter. Whenever I read about the problems our competitors are having with their "high yield" bond and real estate speculations, I am thankful that our portfolio remains so uninteresting. Although someday we will do more, I expect 1991 to look much the same as 1990 with respect to our passive investments. There is ample leverage and plenty of risk associated with the new businesses in which we are investing.

We gained a new shareholder in 1990. When we combined SRB Corporation with The Plymouth Rock Company, we raised a million dollars in additional capital to help fund our new ventures. The money came from T. Rowe Price Strategic Partners, a private venture partnership associated with the large Baltimore mutual fund group. We have known David Warnock, who runs the partnership, for some years, and I am pleased that we are finally in a business together. David will now join SRB's board

of directors, to which we also welcome John Meyer, the talented chief financial officer of the personal insurance division of Fireman's Fund (now part of Allianz-North America) and Gene Meyung, who recently retired as president of GEICO. Gene has also agreed to serve as a consultant for our companies, an arrangement with which we are thrilled. All who know Gene from his thirty-five successful years of industry experience will appreciate why we feel that way.

This year's letter closes with an advertisement. For years now, business acquaintances have been asking me to help them with their corporate insurance problems. Sometimes I have felt a little like a doctor at a cocktail party, a magnet for friends seeking advice on tough and technically complex problems. My usual response has been a demurral, a reminder that Plymouth Rock writes only autos and homes and thus provides no contact with the more sophisticated corporate lines they ask about. From now on I will give a different answer. Plymouth Rock still insures only the personal lines directly, but we can broker (through Boston Risk Management) or service (through Pilgrim) many of those lines of business I used to turn away. So, if you know anyone who has a problem with any kind of property and casualty insurance, I encourage their inquiries. Unlike many of the doctors I know, our companies can examine a virtually unlimited number of referrals.

A handwritten signature in black ink that reads "James M. Stone". The signature is written in a cursive style with a large initial "J" and a long horizontal stroke at the end.

James M. Stone